

JAMES A. GRAASKAMP COLLECTION OF TEACHING MATERIALS

V. INDUSTRY SEMINARS AND SPEECHES - SHORT TERM

I. Other Presentations In Which Either The Date And /  
Or Sponsoring Organization Is Missing

2. Appraisal Topics

- u. "Emerging Trends in Appraisal  
Techniques", no date

## EMERGING TRENDS IN APPRAISAL TECHNIQUES

### I. Industry methods

- A. Most probable use must reflect primary market research, a critique of the structure, and an understanding of political attitudes at the local level. History of the property in terms of ownership and use is required to identify possible sources of hazardous materials, nonconformity, or transaction distortions.
- B. Better definition of legal interests in land and building with segregated values for assumable financing, personal property, or intangible values.
- C. Most probable use and legal interest identifies most probable buyer who, in turn, defines an acceptable comparable, since buyers must be similar in motivation and properties similar in legal interest to be comparable.
- D. Market comparison approach must be explicit on terms and motivations and all adjustments between properties must be explicit. Computer techniques have been developed to synthesize point scores and weights to converge market comp prices toward subject property. Appraiser not permitted to black-box adjustments. Conclusion is stated as a range of price per unit of comparison. Unit of comparison should be selected carefully. (First floor footage vs. gross footage or production, such as barrels of cranberries.)
- E. The income approach is shifting to DCF of distributable cash with parameters to include a cash break-even. 1-2-3 models are used to develop revenue lines and GOAL SEARCH can be used to optimize selected ratios. Expense forecasts must be verified from contracts, utility companies, etc. Accrual or amortized capital expenditures must be converted to a cash outlay schedule.
- F. The cost approach is used primarily because fiduciaries fear being negligent if they don't.
- G. One method best reflecting the calculus of the most probable buyer with the most reliable data is preferred to a weighted average of three methods. Financing terms must be explicit and conclusion should be stated as a range around a single tendency described as market value together with evidence that there will be alternative purchasers.

H. Limiting conditions place more responsibility on the client for full disclosure of possible problems with the property. New protocols need to be developed as to information to be provided by the client as to the management plan, accounting systems, general ledger, computer models and lease abstracts. Does an independent appraisal mean an audit of data supplied or a valuation of the assumptions provided by the client? When is independence achieved?

## II. Regulatory trends

- A. Federal legislation has been introduced to control all entities controlled by federal agencies or guarantee agencies by Congressman Banard. Strong hidden resistance among developers, brokers, and appraisal splinter groups will probably block legislation.
1. Cost of effective enforcement requires federal participation.
  2. Threat of legislation is the only thing that has caused appraisal societies to work together.
- B. Administrative rules are attempting to tighten up appraisal standards but are failing because of internal political pressures. Forthcoming demise of R41C is a travesty and suggests that savings and loans will fail for lack of leadership.
- C. Appraisal organizations have been unable or unwilling to regulate their own members, finding it cheaper to encourage the worst to resign and the others to have continuing education. Continued education requires attendance but no exam.
- D. Most effective regulation will come from professional organizations of appraisal clients with common interests:
1. PREA/NCREIF development of letters of engagement and accounting/appraisal standards.
  2. FASB will adapt something similar to European common market definitions as well as rules for appraisal by subsidiaries of accounting firms.
  3. Mortgage guarantee companies with FNMA, FHLMC, and state housing agencies will develop standard house form.
  4. SEC will define appraisal rules for prospectus and annual financial statements.